

# OVERVIEW OF GENERAL FUND REVENUES AND EXPENDITURES

The Governor's Budget projects General Fund revenues will increase by 7.2 percent in 2007-08 compared to the revised 2006-07 revenue estimate, and General Fund expenditures to increase by only 1.0 percent compared to the revised 2006-07 expenditure estimate.

Figure GRE-01 compares General Fund revenues and expenditures in 2007-08 to the revised 2006-07 revenue and expenditure estimates. General Fund expenditure changes are highlighted below. For information regarding changes since the 2006 Budget Act, please view specific departmental information under Proposed Budget Detail or agency change tables included in the Proposed Budget Summary.

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## EXECUTIVE

Expenditures are proposed to increase by \$9.2 million, or 0.9 percent. The major adjustments are as follows:

- An increase of \$5.9 million (\$2.2 million General Fund) for the Board of Equalization (BOE). This increase is primarily attributable to the provision of 79 new staff to assist in administration of the sales and use tax and various other special taxes for which BOE is responsible.
- An increase of \$4.8 million for the Department of Justice to handle increased federal habeas corpus workload, including federal habeas corpus appeals.

OVERVIEW OF GENERAL FUND REVENUES AND EXPENDITURES

Figure GRE-01

<b>General Fund Revenues and Expenditures</b> <b>2006-07 Revised vs. 2007-08 Proposed</b> (Dollars in Millions)				
<u>REVENUES</u>	<u>Revised</u> <u>2006-07</u>	<u>Proposed</u> <u>2007-08</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
<b>Revenues and Transfers</b>	<b>\$94,518.6</b>	<b>\$101,277.5</b>	<b>\$6,758.9</b>	<b>7.2</b>
<b><u>EXPENDITURES</u></b>				
<b>NON-PROPOSITION 98:</b>				
Executive	\$1,009.1	\$1,018.3	\$9.2	0.9
Legislature	327.4	343.7	16.3	5.0
Judicial	2,168.0	2,430.7	262.7	12.1
State and Consumer Services	602.3	574.9	-27.4	-4.5
Business, Transportation, and Housing	3,025.8	1,587.9	-1,437.9	-47.5
Resources/Environmental Protection	2,252.9	1,557.9	-695.0	-30.8
Health and Human Services	29,797.3	29,848.0	50.7	0.2
Corrections and Rehabilitation	9,182.8	9,989.1	806.3	8.8
Non-Proposition 98 Education	10,281.2	11,057.9	776.7	7.6
Labor and Workforce Development	104.5	117.7	13.2	12.6
General Government	2,573.3	3,424.6	851.3	33.1
<b>Total - Non-Proposition 98</b>	<b>\$61,324.6</b>	<b>\$61,950.7</b>	<b>\$626.1</b>	<b>1.0</b>
<b>PROPOSITION 98:</b>	<b>\$40,812.0</b>	<b>\$41,189.9</b>	<b>\$377.9</b>	<b>0.9</b>
<b>TOTAL - ALL EXPENDITURES</b>	<b>\$102,136.6</b>	<b>\$103,140.6</b>	<b>\$1,004.0</b>	<b>1.0</b>

**LEGISLATURE**

Expenditures are proposed to increase by \$16.3 million, or 5.0 percent. The major adjustment is as follows:

- An increase of \$15.7 million based on the growth in the State Appropriations Limit.

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## JUDICIAL

Expenditures are proposed to increase by \$262.7 million, or 12.1 percent. The major adjustments are as follows:

- Application of the State Appropriations Limit growth factor to the Judicial Branch's budget, at a cost of \$146.8 million.
- An augmentation of \$27.8 million for new judgeships.
- An augmentation of \$18.8 million to implement recently enacted legislation.
- An augmentation of \$5 million to implement a pilot program to improve access to justice.

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## STATE AND CONSUMER SERVICES

Expenditures are proposed to decrease by \$27.4 million, or 4.5 percent. The major adjustments are as follows:

- A decrease of \$139.8 million (\$44.1 million General Fund) for the Franchise Tax Board. Most of this reduction is attributable to the transition of the California Child Support Automation System project from development to implementation.
- An increase of \$1.9 million Phase II operational start-up activities at the California Science Center.
- An increase of \$1.7 million for the Department of General Services to complete critical repairs to the State Capitol Building.
- A net increase of \$0.9 million to establish the California Office of Information Security and Protection.

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## BUSINESS, TRANSPORTATION, AND HOUSING

Expenditures are proposed to decrease by \$1.4 billion, or 47.5 percent. The major adjustments are as follows:

- A reduction of \$340 million for debt service for seismic work on bridges due to the proposal to offset such expenditures with sales tax "spillover" revenues.
- Repayment of Proposition 42 loans of \$83 million per Proposition 1A, and a \$1.2 billion prepayment of the Proposition 42 loan in 2006-07.

## OVERVIEW OF GENERAL FUND REVENUES AND EXPENDITURES

- Proposition 42 transfer is fully funded in 2007-08 at \$1.5 billion. This is an increase of \$47 million over the current year amount of \$1.4 billion.

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## RESOURCES AND ENVIRONMENTAL PROTECTION

Expenditures are proposed to decrease by \$695 million, or 30.8 percent. The major adjustments are as follows:

- Expenditures for levee repairs and other flood control improvements funded by AB 142 will decrease by \$325 million, as most of the funds will be encumbered by the end of the 2006-07 fiscal year.
- Proposition 1E funds will be used to reimburse \$200 million in previous General Fund expenditures for flood control. Since the reimbursement will take place in 2007-08, budget year expenditures will reflect a General Fund expenditure reduction of \$200 million.
- Expenditures for flood control subventions will decrease by \$100 million. However, additional funding for the subventions is expected to be made available from the bond funds authorized by Proposition 1E.
- Debt service for Resources land acquisitions and capital improvement projects approved in prior years will increase by \$93 million.
- Expenditures for deferred maintenance by the Department of Parks and Recreation will decrease by \$90 million to reflect expiration of one-time funding. However, Proposition 84 provides \$400 million for, among other purposes, restoration and rehabilitation of the state park system.
- \$50 million in one-time funds for various Fish and Game programs, the Marine Life Management Act and the Marine Life Protection Act, will be eliminated from the Budget.
- One-time funding to correct shortfalls in subaccounts within the Fish and Game Preservation Fund will be eliminated, saving \$20 million.
- Funding requirements for the Habitat Conservation Fund will result in increased General Fund spending of \$16 million.
- Employee compensation costs for the Department of Forestry and Fire Protection will increase by \$11 million.

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## HEALTH AND HUMAN SERVICES

Expenditures are proposed to increase by \$50.7 million, or 0.2 percent. The major adjustments are as follows:

- Caseload and other workload increases totaling \$1.4 billion, of which \$979.8 million is in the Medi-Cal program.
- Savings of \$324.4 million resulting from CalWORKs changes that strengthen work requirements, reduce reliance on aid, increase accountability for recipients and counties, and improve the state's ability to meet federal welfare requirements.
- Savings of \$268.9 million resulting from utilization of Proposition 98 funding for CalWORKs Stage 2 child care.
- A decrease of \$251.7 million to reflect the removal of one-time funding from 2006-07 associated with unpaid prior year claims in the Early and Periodic Screening, Diagnosis and Treatment and San Mateo Pharmacy and Laboratory Services programs.
- A decrease of \$245.5 million in Child Support Administration expenditures due to a reduction of \$220 million in federal automation penalties that will be held in abeyance while federal certification of California's statewide child support automation system is in process and a reduction of \$25.5 million to reflect the expiration of one-time payments and automation system enhancements in 2006-07.
- A decrease of \$160.4 million in the Department of Public Health budget to reflect the removal of one-time funding for health care surge capacity.
- One-time savings of \$144 million from using Public Transportation Account funds for Regional Center transportation costs.
- Savings of \$140.3 million by suspending the CalWORKs cost-of-living adjustment.

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## CORRECTIONS AND REHABILITATION

Expenditures are proposed to increase by \$806.3 million, or 8.8 percent. This increase consists primarily of population and other workload increases totaling \$571.9 million, as well as \$52.6 million in policy adjustments, and \$181.8 million in increased capital outlay. The major adjustments are as follows:

## OVERVIEW OF GENERAL FUND REVENUES AND EXPENDITURES

- A net increase of \$200.5 million for the full year cost of new or expanded programs, including an increase of \$41.1 million to augment programs designed to reduce recidivism.
- An increase of \$148.9 million in 2007-08 to comply with court orders and lawsuits, including the health care Receiver in the case of Plata v. Schwarzenegger.
- An increase of \$94.5 million in 2007-08 for the California Department of Corrections and Rehabilitation (CDCR) to implement Proposition 83 and recommendations of the Governor's High Risk Sex Offender Task Force. Funding is included to provide Global Positioning System monitoring and reduced parole agent caseload ratios for all registered sex offender parolees, additional screenings of inmates for potential referral as Sexually Violent Predators, treatment to High Risk Sex Offender parolees, training for Parole Agents on the Sex Offender Containment Model and polygraph testing, biannual polygraph tests for high risk sex offenders on parole, and additional parole agents to coordinate with Sexual Assault Felony Enforcement (SAFE) Teams by parole region.
- Estimated savings of \$52.5 million resulting from modifications to the parole structure, which will allow law enforcement to focus on those who pose the greatest risk of committing another crime. This includes automatic discharge from parole for individuals with 12 months of "clean time", and no parole after completion of sentence for low-level offenders. This savings grows to \$70 million in 2008-09 and ongoing.
- An increase of \$50 million in local assistance for adult probation grants to target the at-risk 18-25 year old probation population. This investment will increase to \$100 million in 2008-09.
- An increase of \$46 million for facility maintenance and repair, including maintenance of transformers, generators, and high-voltage switchgear, ongoing preventative maintenance for roofing, repair and replacement of roads and parking lots, and other critical deferred maintenance.
- A net savings of \$32.9 million related to the shift of juvenile offenders to the counties. Another \$10 million savings resulting from the elimination of funding for the Juvenile Justice Community Reentry Challenge Grant.
- A net increase of \$32.5 million in 2007-08 for the CDCR to implement the Consolidated Information Technology Infrastructure Project (CITIP), which will provide a "backbone" of infrastructure for multiple information technology projects currently planned or underway at the CDCR. The 2007-08 estimated project cost for CITIP is \$118.5 million;

however, the Budget assumes that up to \$86 million of this amount can be financed using GS \$mart.

- An increase of \$23 million in 2007-08 to replace equipment including buses, telephone systems, and radio systems.

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## NON-PROPOSITION 98 EDUCATION

Expenditures are proposed to increase by \$776.7 million, or 7.6 percent. The major adjustments are as follows:

- An increase of \$346 million for the Higher Education Compact.
- An increase of \$344.7 million for K-12 general obligation bond debt service.
- An increase of \$64 million due to increased CalGrant and other financial aid program costs.
- An increase of \$20 million for UC Research.

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## LABOR AND WORKFORCE DEVELOPMENT

Expenditures are proposed to increase by \$13.2 million, or 12.6 percent. The major adjustments are as follows:

- An increase of \$13.5 million to reflect the Employment Development Department's (EDD) cost to collect various employment taxes.
- A net decrease of \$0.2 million for the second year of funding for the EDD's Automated Collection Enhancement System, which will improve the EDD's ability to track, collect, and audit the payment of specified employer payroll taxes, including the personal income tax.

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## GENERAL GOVERNMENT

Expenditures are proposed to increase by \$851.3 million, or 33.1 percent. The major adjustments are as follows:

- An increase of \$551 million for transfer to the Budget Stabilization Account for early retirement of the Economic Recovery Bonds per Proposition 58.

## OVERVIEW OF GENERAL FUND REVENUES AND EXPENDITURES

- A one-time increase of \$595 million to pre-pay outstanding Economic Recovery Bond debt.
- A decrease of \$77 million reflecting higher recovery of central services costs from special funds.
- An increase of \$35.7 million to support the "Next Generation" of financial management information systems and workforce for the state. The modernization project, known as the Financial Information System for California (FI\$Cal), will prepare the state financial management systems and workforce to function in a single statewide financial management system environment.
- An increase of \$10.3 million to procure and implement the statewide Veterans Home Information System.
- An increase of \$2.1 million to open a 40-bed skilled nursing facility at the Barstow Veterans Home.
- An increase of \$1.7 million for the Military Department to establish a tuition assistance program for members of the California National Guard.
- An increase of \$0.6 million for workload increases for the Fair Political Practices Commission.

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### PROPOSITION 98

In 2007-08 Proposition 98 funding increases by \$1.8 billion over the revised 2006-07 level to \$56.8 billion. The General Fund contribution to Proposition 98 increases by \$377.9 million to \$41.2 billion. This is equal to 40 percent of total General Fund expenditures in 2007-08. The Budget includes a \$300 million settle-up appropriation of which \$268 million will be provided to approximately 450 to 500 school sites for class size reduction, maintaining counselor-to-student ratios at 300:1, and professional development. The other \$32 million will be provided to the community colleges for Career Technical Education programs. The Budget also proposes to shift the fund source for the \$627 million Home-to-School Transportation program from Proposition 98 General Fund to the Public Transportation Account (PTA), allowing for the guarantee to be rebenched downward for General Fund savings of \$627 million.